

A FINANCIAL APPROACH AS AN ALTERNATIVE  
ORGANIZATIONAL DEVELOPMENT INTERVENTION

George E. Plank



# NAVAL POSTGRADUATE SCHOOL

## Monterey, California



# THESIS

A FINANCIAL APPROACH AS AN ALTERNATIVE  
ORGANIZATIONAL DEVELOPMENT INTERVENTION

by

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The case study method provided a practical test of the hypothesis in two contrasting organizations.





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ORGANIZATIONAL DEVELOPMENT INTERVENTION

by

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## ABSTRACT

Major advances in Behavioral Science studies have led to the recent evolution of Organizational Development (OD) techniques for improving the productivity of organizations. A major barrier to the practical application of these OD techniques has been the solid resistance of organizations and senior personnel in positions of authority to entry of any outside change agent.

This thesis describes two cases that field tested the hypothesis that a financial analysis of an organization can be used as an entry point for an OD program using the techniques of Process Consultation (PC).

The case study method provided a practical test of the hypothesis in two contrasting organizations.



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## I. INTRODUCTION

### A. BACKGROUND

The utilization of OD techniques within the United States Navy has been severely limited by massive resistance at all levels to entry of any change agent. (7, 10)

This thesis presents the details of two situations where initial entry into an organization was gained by using financial analysis to start an OD intervention.

These cases are intended to show the interfaces and conflicts that exist when financial analysis and OD techniques are applied to practical situations.

Case A was a profit centered company with an authoritarian style leader. The structure and dynamics of its decision making process as well as its budgeting practices are reported.

Case B was a volunteer non-profit public service organization. This organization had a volunteer Board of Directors which set policy and raised money for the paid staff to use in implementing community service programs.

### B. PROBLEM STATEMENT

The resistance by organizations to entry of any change agent is so pervasive that an alternative to the current directed entry of the survey guided Organizational Development practiced by the Human Resources Management (HRM) program is suggested to bring the benefits of behavioral



science knowledge to the operating forces of the Navy. The following quotation from Mirvis and Berg summarizes the resistance of organizations to OD programs and highlights the problems faced by the Navy's HRM program:

The primary goals of an OD practitioner entering a social system are to gain access to its members - - to their attitudes, behaviors and experiences -- and, once inside their world, to participate with them in bringing about meaningful change. Thus David Berg describes the entry process as the beginning of this mutual involvement, including choosing to undertake the (project), agreeing on ground rules, drawing up a contract, and building a working relationship . . . Yet Fritz Steele counters, 'Mention behavioral scientist in many organizations and people immediately begin complaining about manipulation, invasion of privacy, interpretation, and the like.' Their statements characterize the dilemma facing practitioners as they begin the process of change. (Ref. 16, p. 17)

#### C. THESIS OBJECTIVE

This thesis reports the results of two field tests of the hypothesis that financial analysis of an organization can be used as an entry point for an Organizational Development Program.

Practical applications of both financial analysis and OD techniques were examined in two diverse situations. These specific cases were then analyzed to discover the intrinsic factors present. Conclusions and recommendations for additional research are drawn from the analysis.

#### D. METHODOLOGY

Data for these two cases was collected during several hundred hours of individual interviews and observation of numerous group meetings in the two diverse situations.



Special efforts were taken to attempt to remain objective. The author refused to give advice or direction during situations when the interviewee would ask the author for answers that his organization had not provided. The following guide was used to structure the first interview with each individual:

A. Social Questions:

1. Introduce self and explain the research project.
2. Stress the independence and objective observer position with top management support for the study and organization control over any intervention.
3. Review the educational and work experience of the interviewee.
4. Describe the OD technique of PC and explain that the critique and feedback will be confidential to the individual concerned.

B. Business questions:

1. Describe your position and function within your formal organization.
2. What part do you play in capital budgeting decisions?

C. Research questions:

1. What are the key factors in capital budgeting decisions?
2. What are your actions when policy is not clearly stated?
3. What are your actions when policy changes?



4. How do you interpret policy from events or actions by your seniors in the organization?
5. How do you and your juniors respond to requests for information from people who are senior to your immediate operational supervisor?
6. How do you update your area to use current technology?
7. What changes would you introduce in your present organization, or procedures?

Working around this core of questions, subsequent interviews were conducted using process consultation techniques and adapting to the position of the individual within the formal and the informal organizational structure.

Constraints, opportunities and liabilities are noted in both situations. Organizational side effects are reported.

#### E. OVERVIEW

Chapter two will review the specific theories of both financial analysis and organizational development which are applied in the case studies. Chapter three provides the actual case reports and chapter four draws parallels between the two situations and contrasts the theory with the practical applications. Chapter five then summarizes the conclusions from both cases and provides recommendations for additional research.





## II. REVIEW OF SELECTED DISCIPLINES WHOSE THEORIES SUPPORT FINANCIAL ANALYSIS AND ORGANIZATIONAL DEVELOPMENT

### A. OVERVIEW

The skeletal framework upon which the cases were developed was built by drawing together the following elements. Financial analysis as used in this thesis is described and supported by the related definitions of capital budgeting, and payback period to form the financial base for the entry process.

The OD portion was formed upon the elements of PC, Action Research, and Intervention techniques. The actual cases build upon this pyramid to coordinate and focus on the internal processes of the client organization to develop an interactive relationship between the consultant and the individuals within the client organization.

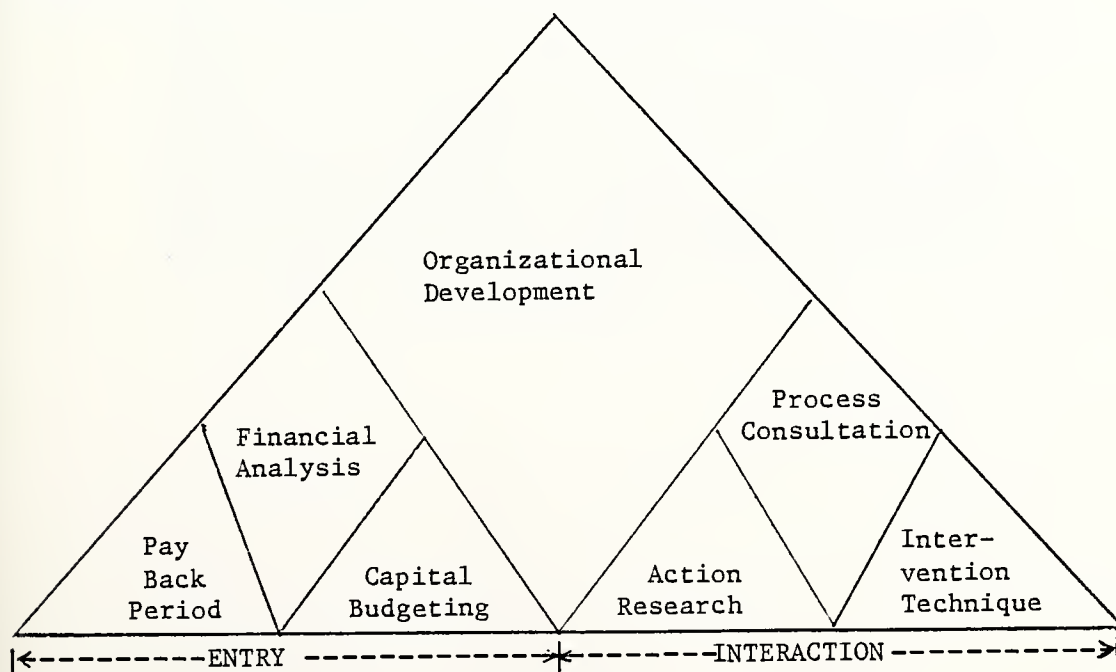


FIGURE 1



## B. FINANCIAL ANALYSIS

Financial analysis as used in this thesis covered the full range of techniques used in capital budgeting, in cost/benefit analysis and in the analysis of current financial position. This broad perspective was chosen to support the contention that any of these financial analysis activities could provide an entry point for much larger organizational development programs.

The financial analysis provided both the entry point for the OD program and the proof that change was needed within the present organization.

## C. CAPITAL BUDGETING

Associated with Financial Analysis, Capital budgeting is a method of allocating scarce resources among major alternatives. Such investment decisions are composed of two parts. One is the decision to invest a large sum for an extended time and the other is the financing decision of how to obtain the funds for the investment. The two are tied together since the evaluation of one alternative against another relates the cost of the financial decision against the return from the investment decision. Techniques of investment analysis include Net Present Value, Present Value Index, and Discounted Rate of Return. Each of these techniques recognize the time value of money. One method that does not recognize the time value of money is the Payback period. (8, 32)



#### D. PAYBACK PERIOD

To complete the entry portion of our model we include a description of Payback Period.

The payback period of a proposed investment is the length of time required for the net cash receipts from the investment to equal, in total, the amount of the initial outlay. It is often described as the time required for an investment to pay for itself. The basic premise of this technique is that, other things being equal, an investment that will pay for itself soon is better than one that will require a long time before the initial outlay is recovered. The payback is expressed in units of time, usually years. (8, 473).

#### E. ORGANIZATIONAL DEVELOPMENT

OD has been defined as; "An educational strategy to bring about a planned organizational change" by Warren Bennis during his early writings and redefined in his later works as: "A response to change." (4, 10) OD is described by various practitioners as a methodology, as a process of renewal, and as a technology of applied Behavioral Science techniques. The classic definition by Richard Beckhard will be used throughout this thesis:

Organizational Development is an effort  
(1) planned, (2) organization-wide, and  
(3) managed from the top, to (4) increase  
organization effectiveness and health  
through (5) planned interventions in the  
organization's 'processes', using behavioral  
science knowledge. (2, 9)



Regardless of the formal definition used, OD is considered by many to be an art rather than a formal discipline or science since it requires interaction between the practitioner and the client. These fluid definitions encompass a wide range of activities, all of which center around management of change. Wendell L. French and Cecil H. Bell Jr. provide the following outline of the elements of OD:

We see seven characteristics that we think differentiate organizational development interventions from more traditional interventions:

1. An emphasis, although not exclusively so, on group and organizational processes in contrast to substantive content.
2. An emphasis on the work team as the key unit for learning more effective modes of organizational behavior.
3. An emphasis on the collaborative management of work team culture.
4. An emphasis on the management of the culture of the total system and total system ramifications.
5. The use of the action research model.
6. The use of a behavioral scientist change agent or catalyst.
7. A view of the change effort as an ongoing process.

(9, 23)





With this outline of the elements of OD in mind we proceed to examine some of the particular OD activities.

#### F. ACTION RESEARCH

Action research is a particular OD activity that is best described by Peter A. Clark and R. Rapport:

Action research aims to contribute both to the practical concerns of people in an immediate problematic situation and to the goals of social science by joint collaboration within a mutually acceptable ethical framework. Thus action research must possess an aspect of direct involvement in organizational change and simultaneously it must provide an increase in knowledge. Action research has three task masters: the sponsor, the behavioral science practitioner, and the scientific community. The fact that these dissimilar groups are related for the duration of a project imposes many strains and it must be observed that one of the major problems facing the action researcher is the devising of appropriate administrative mechanisms for simultaneously linking and separating these groups. (7, 23)

#### G. PROCESS CONSULTATION

Process Consultation is an organizational development technique that helps work groups improve their effectiveness. One authority on PC is Edgar Schein who defines PC as: "A set of activities on the part of the consultant which help the client to perceive, understand and act upon process events which occur in the client's environment." (17, 9) Attention is focused more on process than upon structure or content of decision making.

Process consultation seeks to help a group become more aware of its own problem solving capabilities. One of the major goals of PC is to teach the client to identify factors



in his present situation and then have the client choose the corrective action himself. The consultant expands the client's ability to diagnose problems and make interventions. PC is available to individuals as well as groups within an organization. The process consultant is usually from outside the organization and must first gain entry to observe an organization's processes. The consultant attends meetings, and other group activities and helps members become more aware of their own processes - that is, how they function as a group. Some of the specific interventions used by process consultants are:

- a. Immediate feedback of observations after meetings.
- b. Individual feedback to selected individuals after meetings.
- c. Coaching of individuals during group meetings.
- d. Suggestions for structural changes.

#### H. INTERVENTION

An intervention is any act by an outside consultant that results in the introduction of change within the client system. Interventions may take several forms and can result in individual behavior modification or changes in the formal organization structure. The mere act of entry must be recognized as an intervention. The recognition that any entry by an outsider into an organization will have various ripple effects, some of which are unpredictable, is a key factor in the widespread resistance to OD efforts. The magnitude of the personal reactions to initiating or authorizing an



innocuous study of anything have just recently been recognized. Chris Argyris offers the following formal definition of intervention:

To intervene is to enter into an ongoing system of relationships, to come between or among persons, groups, or objects for the purpose of helping them. There is an important implicit assumption in the definition that should be made explicit: the system exists independently of the intervenor. There are many reasons one might wish to intervene. The reasons may range from helping the clients make their own decisions about the kind of help they need, to coercing the clients to do what the intervenor wishes them to do. (1, 15)

In summary, the author has attempted to place in perspective the use of financial analysis variables in the entry phase and how typical OD processes will continue beyond that entry phase.



### III. TWO CASE STUDIES

#### A. OVERVIEW

This chapter reviews two cases where financial analysis was used as the entry point for an OD program. This marriage of the theories discussed in chapter two with operating situations illustrates the practical realities faced when theories are tested in the dynamic environment of an operational situation.

#### B. CASE (A) - A PROFIT CENTERED COMPANY

##### 1. Background

This project involved a profit centered company with a matrix organizational structure. The company was organized on a divisional basis with a central headquarters in a major city and the several production plants at locations near their raw materials. Each plant was located in a small community several hundred miles from the main office. While each plant had a workforce of several hundred people, its production equipment and end products differed.

Each plant was operated as an autonomous unit or profit center with a single plant manager responsible for all operations at the plant site. Only plant (A) is described in this case.

Due to various special considerations the formal organizational structure, shown in figure (2), was not along either pure functional or pure product lines. The formal





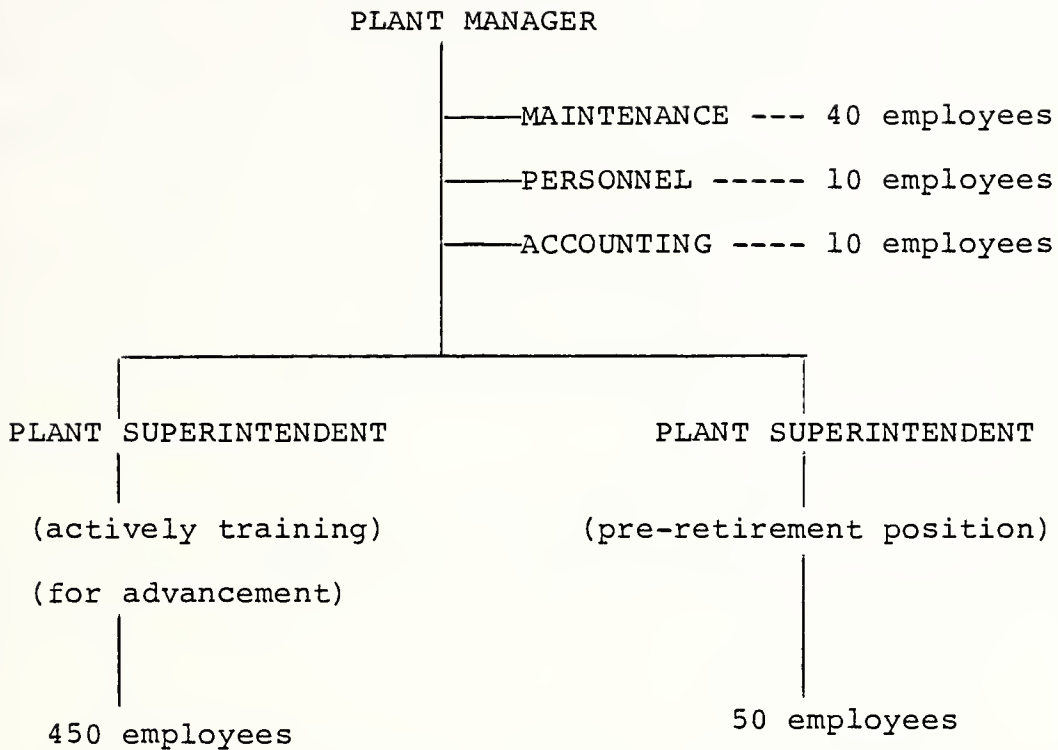


FIGURE 2



structure had evolved as a result of a series of special placements of personnel into positions altered to fit the needs of the individuals. These special placements resulted from a paternalistic policy of the limited stockholders and a recognition that their remote plant location and specialized products required special consideration of their employees to reduce turnover.

A sister plant, plant (B) processed only one of the two main product lines handled by plant (A). The configuration of production line equipment was significantly different between the two plants. Both plants operated on a three shift per day basis.

Staff personnel at the central headquarters constantly evaluated the performance reports of the two plants against each other.

## 2. Entry

First contact with the organization was made via the Plant Manager at plant (A). The author used a prior association of one of his Naval Postgraduate School Professors with the Plant Manager as a reference during the first phone contact. An initial interview was set up to request a practical operating situation for a cost/benefit study as a systems analysis course project. During the first interview, the author was introduced to the Plant Engineer, head of the maintenance department. The Plant Manager announced that the author was to have access to maintenance department personnel and records to choose a project suitable for systems analysis.



This open entry and announced support from top management came surprisingly easily. All early personal contacts were by a personal introduction from senior maintenance department personnel.

The author encountered immediate resistance to release of any financial data by everyone within the maintenance department. The company's historical policy had limited release of financial data and required that files be locked. After receiving a plant tour and holding general interviews with maintenance department personnel to learn how the organization was formally and informally structured, it was necessary to return to the Plant Manager to obtain physical access to financial data and operating records. Once access was granted to financial data within the maintenance department, a cost/benefit analysis of lease versus buy alternatives for replacement of a selected portion of the motorized equipment was conducted.

The author used the oral report of the results of the systems analysis study project to build creditability with the Plant Manager. At the same meeting, the request for an expanded OD intervention using process consultation techniques to introduce changes was approved.

The shift from a cost/benefit study of financial alternatives within the maintenance department to a full scale OD intervention with the entire thirty man salaried management team at plant (A) was accomplished with such ease that the author was led to question if this approach



would be viable in other situations.

The PC methods used to conduct the OD intervention consisted of a series of all day interviews and observations starting with the Plant Manager and working down the formal organization pyramid. During the first three of these all day interviews, the author accompanied the Plant Manager throughout his daily routine from 0715 to 1730.

The Plant Manager's role is analogous to that of a military unit commander who is charged with the operational responsibility but is limited by environmental factors. Within his matrix organization he must respond to the demands of both line and staff seniors as well as regulatory agencies. All this is in addition to his role as the senior supervisor charged with keeping the daily operations going.

This open and continuous observation of the Plant Manager during his normal work routine gave the author a quick history of the organization's growth and an insight into the reasons for the special assignments of various personnel to their positions in the formal organizational structure. This process also served to provide the author a personal introduction from the Plant Manager to each of the members of the management team, as well as to many of the hourly employees encountered during the plant tours. This continuous interaction with the daily operations gave the author an insight into the forces and the environment affecting the organization's performance as well as the relationship between individual and organizational goals. While these observations are subjective they cover a much





broader area than could have been touched by a specific survey.

One incident that greatly raised the credibility of the author as an independent and objective observer was a confrontation that occurred when a Company Vice-President on an unannounced inspection tour, publicly challenged both the author and the Plant Manager as to the prior authorization by the company headquarters for the author to have access to company information. The public assurances to the visiting Vice-President and a later call from the Plant Manager's superior to ensure that the author had signed a company non-disclosure security agreement form, removed the suspicion from lower level management that the author may have possibly been a spy sanctioned by the owners.

The author had requested a formal written notice of his study authorization early in the financial analysis portion when data was so tightly controlled. He had only received verbal authorization during personal introductions by the Plant Manager.

As the interviews with the Plant Manager proceeded and the author probed into the factors that allowed the original entry, a startling discovery was made.

The Plant Manager had allowed the original financial analysis with the intent of shifting the focus to an organizational development program in order to train one of his plant superintendents as his future replacement as Plant Manager. With the organizational goals for the study and



and intervention now openly admitted, the author proceeded on with all day interviews of the target trainee and other department heads.

The early interviews were primarily used to gather data on the present operations and develop a perspective of the roles and background experiences of the key management personnel. Part of the interview technique was to explain the concept of process consultation and to have the interviewee describe his perception of the management style of other members, both senior and junior, within the present organization. The central focus of all interviews was a questioning of the factors in capital budgeting decision making. This focus gave the interviewee an objective subject since capital budgeting decisions were in fact made at the company headquarters and only the Plant Manager attended budgeting sessions. This financial focus still generated active discussion since all members participated in preparing capital budgeting authorization request forms. These forms were used as inputs to the decision makers and were formatted to provide a summary of cost/benefit analysis and specifically reported the payback period for investment alternatives.

The company's announced policy was to consider only capital investment projects that had a payback period of less than one year.

Due to the age and heavy service use of the production equipment at plant A, there were more capital projects that met the short payback period criteria, than there were investment funds available.



This stress from top management to consider only short term projects severely limited the planning horizons of the middle level managers. This restriction kept the lower level managers in a constant program of short term replacement of individual items and eliminated the proposals for major relocation and modernization projects that in the long run would have eliminated some of the recurring short term projects.

### 3. Intervention

The primary method of intervention used was process consultation (PC) where feedback was provided at the end of individual interviews and after group meetings. This method was agreed to by the Plant Manager who in fact participated in many group sessions.

The most dramatic session occurred during a meeting of the Plant Manager and his department heads. An instant survey and feedback situation was announced by the author to question both the effectiveness of the daily meeting and the relationships between the individual department heads and Plant Manager. All six participants were asked to rate the effectiveness of the 0830 meetings as compared with the rest of their normal working day on a scale from -5 to +5. Zero was declared to be equal to their individual average performance during a normal working day. Negative values were used to indicate for each individual that the 0830 meetings were less productive than their average performance, and positive values were used to indicate that their time



spent in the meetings was more productive than their average performance. This oral survey was conducted in the Plant Manager's presence and showed a bias to positive values with a mean value of +3.

While the limited survey results were not significant, the discussion it generated demonstrated clearly to the Plant Manager which of his department heads were in fact intimidated by his style and presence. Each of them had answered "NO" to the specific question: "Are you intimidated by the Plant Manager?" The qualifying conditions that they added when explaining their feelings separated two department heads from the others.

These two department heads were defensive to the point that they had been only telling the Plant Manager what they perceived he wanted to hear and would accept. These two were not participating in the group effort at the 0830 meetings.

The Plant Manager had requested the author to evaluate the entire management team and to provide feedback on how to raise their low (by his standards) level of effectiveness as a team.

The group setting was chosen as a vehicle for giving feedback to the Plant Manager about the low effectiveness of the 0830 meeting and as a vehicle to provide feedback to the department heads as a group. The instant survey and immediate feedback evaluation discussion with the 0830 group served to support the techniques of process consultation as both individual and group feedback occurred.





The general discussion served to identify to the Plant Manager which of his department heads were not fully participating in the group actions. It also served to provide feedback to each of the department heads that both the Plant Manager and the group were dissatisfied with the participation of two of their members. This generated a team participation and the sharing of information that would not have occurred in an individual confrontation if either the Plant Manager or the author had tried to counsel the department heads individually.

The situation of unequal participation by the department heads had been identified during various individual interviews and was apparent to the author during prior observed meetings. Each member had indicated a dissatisfaction during prior interviews but until the catalyst of the survey and discussion were introduced none of them would bring these topics up for public discussion or challenge their superior's personal style.

The discussion then proceeded to bring up specific recommendations for changes in the format of the 0830 meeting to increase the productivity of the group effort.

A similar technique was used to introduce changes in the larger 1130 management meeting. The Plant Manager was asked not to attend. One of the Plant Superintendents conducted the meeting. The absence of the Plant Manager from the head of the table position led to more interdepartmental exchange and fewer policy announcement activities.



At the end of the prior day's meeting, the attendees had been asked to write down the answers to the following three questions:

1. What is the purpose of this meeting?
2. What information do you give to the group?
3. What information do you receive from the group?

At the end of the normal meeting the results of the survey were reported. The attendees were then polled as to their rating of the meeting's productivity for them as compared to the remainder of their normal working day. The same scale ranging from -5 to +5 was used and the attendees were polled for an oral report.

This group showed a much larger range with values from -5 to +5 and a mean value of +1 as compared to the range of zero to plus 4 recorded during the department head meeting. The senior members were polled last to avoid biasing the junior members.

The author then initiated a discussion about the relationship between the announced goals and the actual performance of individuals at the meetings. The following observations resulted from the ensuing discussion:

1. The majority of the attendees considered the meeting dysfunctional in that it was not meeting its stated goals.
2. For the Plant Manager and other senior personnel, the meeting provided only a review of information they had already received at earlier meetings or during tours and briefings.



3. Review of recent events and announcement of schedule changes were the most often shared information.
4. Raw numerical data was often being transferred between just two people, yet this action was tying up the entire group.
5. The low level of participation by some members had led them to avoid sharing any information during the meetings.
6. Past announcements by the Plant Manager, to never surprise another manager with a problem at the meeting that had not been discussed beforehand, restricted the transfer of new information.
7. Junior members were receiving a valuable training function by observing the exchange between various departments.
8. Dysfunctional aspects of meetings are recognized and circumvented by the participants, rather than challenge the seniors in a public meeting.
9. The ambiguity created when the Plant Manager declares that he does not want surprises at the meeting, and then expects an exchange of information to occur, forces each level of management to construct a rational socially acceptable reality in the face of unclear policy.

The following specific recommendations were presented to the Plant Manager by the group following their discussion



of the above observations.

1. Raw numerical data should be transferred via a data sheet with copies to concerned and interested individuals rather than by oral public announcements.
2. Chairmanship of the meeting should be rotated among the department heads rather than be dominated by the Plant Manager.
3. Agenda items for a meeting should be announced by flyer prior to a meeting and only those interested should be required to attend.
4. Simple changes in mechanical layout of the conference room and the use of visual aids should be used to enhance the interchange of information between departments rather than just repeat reports previously given to the Plant Manager.

Other PC activities were conducted with the target trainee and other junior level management personnel. These activities were conducted to assist the individuals involved to see the forces acting on themselves and the groups within their organization. With the benefit of the feedback from PC sessions they were able to adjust their own activities to better support the needs of others within the work groups.

Once the transition from the financial analysis entry project to the OD program with active participation by five levels of management at the plant site was completed the study was terminated.





## C. CASE (B) A VOLUNTEER NON-PROFIT ORGANIZATION

### 1. Background

This small organization was a branch of a nation wide association which had a long history of community service activities. It will be known only as the Public Service Organization (PSO), throughout this case.

The PSO had a volunteer Board of Directors composed of from ten to thirty members who represented a cross-section of the local community.

The paid staff consisted of an Administrative Director, a full time secretary, and various part time or temporary federally funded program persons who coordinated and supervised community wide programs for various age groups.

The bulk of their financial support was provided by a sustaining membership of people throughout the local area who supported and participated in the PSO's programs. The PSO also received financial support from a fund raising club and from the local United Way Campaign. Since this particular branch had no large central facility, they conducted their programs in private or public facilities on an, as available basis.

The Administrative Director had been in his position for three years, while most of the members of the Board of Directors rotated after a year or two.

This project combined the study of theories of Organizational Development and Financial Controls with the practical reality of an operating organization.



The practical application of the theories about interpersonal dynamics, financial controls, and financial analysis techniques served to tie together the past year of study, and highlighted those intrinsic factors that influence practical decisions in an operating situation.

The OD technique of Process Consultation (PC) was used to study the present situation and then introduce changes via the members of the PSO rather than to present a package of changes from an outsider.

The Financial Controls study was used as a path to gain approval for the OD study and intervention. The Financial Controls study also served as a focus of attention during personal interviews and group meetings observed by the author. The project included a cost/benefit study of several individual programs conducted by the PSO.

## 2. Entry

Initial contact with the PSO was via one of the members of the Board of Directors who had requested student assistance with cost/benefit analysis of the PSO's programs from the Administrative Science Faculty of the Naval Post-graduate School.

After an introduction by the requestor, the formal written requests for this study were submitted to the PSO Board of Directors by the author at an evening meeting. Separate written feasibility study proposals were prepared to avoid the resistance encountered during data collection for case A. The proposal for a financial analysis (Appendix A) was submitted as a means of meeting a need for program



analysis which had been internally identified by the PSO.

Once the entry was authorized for the financial analysis the request for an OD feasibility study (Appendix B) was submitted as a companion project to test the author's hypothesis that a financial analysis could be converted to an OD program in a non-profit organization setting. This two step process had been reviewed with the requestor who indicated the PSO would participate in an action research project provided they received the program financial analysis they sought.

One member who appeared to be the informal leader openly challenged the scope and usefulness of the proposed OD study. The author met this challenge with a broader verbal description of his background and previous experience. The author reiterated the fact that all actions and recommendations would be fully discussed and approved by the Board of Directors before implementation. This reduced the challenge to the point that the informal leader agreed to participate in the OD project. The Board of Directors approved both projects as feasibility studies with final approval to be considered at the next monthly meeting. Most members present expressed a high level of willingness to work toward improvement of their organization.

During the feasibility study the author first interviewed the officers of the PSO. Information collected during these interviews was used to prepare a presentation for the informal leader. Each of the officers provided inputs as to the informal leader's background and influence within the PSO.



At the start of the actual interview with the informal leader he was quite hostile and kept himself busy with odd jobs tidying up his office rather than participating fully in the interview. After fifteen minutes of waiting and allowing the tension to build, he opened the interview with a lecture about the role of the Administrative Director and the individuals on the Board of Directors in raising financial support for the PSO. Once his participation was gained his key fear of active intervention by the author with junior members of the PSO was addressed. By concentrating on the present financial position and the need to have the other members of the Board of Directors recognize the true condition, the advantages of using PC techniques to have members of the PSO present any recommendations for change were reinforced. At future Board of Directors meetings the informal leader became a supporter of the OD project.

The report of the feasibility study which covered both projects (Appendix C) was presented at the next monthly meeting. Once the report was reviewed and accepted, the proposal for an expanded OD study (Appendix D), was submitted to the Board of Directors and approved unanimously.

The first portion of the study was an analysis of the present financial position and a review of the existing financial controls.

A Program Evaluation Worksheet (Appendix E) and a cover sheet of directions for its use (Appendix F) were developed for the author to use to collect all data necessary for financial analysis of an individual program.





This same device served as a tool for the Program Committee to collect information to evaluate a proposed or ongoing program.

Historical practice had been for the entire Board of Directors to approve a new program as a policy with only loose guidance to their Administrative Director concerning budget items. Financial limits, or controls have been applied only to major items with vague status reports accepted at the monthly Board of Director's meetings. As a result the staff overhead to be applied to each individual program had not been specified and the true economic impact of an individual program had not been known until after the program had been completed for several months.

Another impact of the lack of formal programming and budgeting techniques had been a difficulty in obtaining sponsors for specific programs since specific needs and costs could not be identified in advance.

The Program Evaluation Worksheet was first proof tested on the proposal for a local Soccer program. The worksheet was completed by the PSO staff and forwarded to the volunteer Program Committee.

This first use was abused when two alternate budgets were presented by the Program Committee Chairman to the Board of Directors. The Board of Directors approved the Soccer program, but their motion for approval did not specify which budget to use, or which fee to charge the participants. This general policy of approval of programs without clearly stated



goals and objectives has been characteristic of past actions by the board. This observation was supported by a review of the minutes of past meetings as well as the comments of staff and Board members during personal interviews.

A Program Evaluation Summary (Appendix G), a one page document was drafted for future presentations to the Board of Directors. The Summary sheet only provides for a single proposal and will meet the needs of the Full Board of Directors, while the Worksheet will serve as a working document for the Program Committee. The Summary sheet will also serve as a means of providing periodic progress reports on ongoing programs from the individual program coordinators to the Program Committee Chairman or to the full Board of Directors.

As a result of the author questioning the financial status and raising the level of awareness of the members of the Board of Directors as to the future financial position if the present operations continued, one member called for a crisis meeting of the Executive Committee. The Executive Committee is composed of the Officers, the Administrative Director, and the Chairmen of all other committees. This special meeting was called before the author was ready for a final report.

The interpersonal dynamics during these events were observed and influenced by an Organizational Development process known as Process Consultation\*, where the researcher

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\*Process Consultation is discussed in Chapter II.



aids the members to identify their situations and the alternatives for action so that the members can continue to solve similar situations after the consultant has left the organization. The technique of immediate critique and feedback after working meetings was used to aid members to see their own performance. The members could then evaluate their own and the group's performance in respect to organizational goals. Appendix H is a write up of the summary of the feedback technique that was used to introduce the concept of feedback in a non-threatening manner during the first interview with each individual.

During the course of the numerous individual interviews the author discovered that there was a general dissatisfaction with the present management team's performance. Several individuals acknowledged that they had welcomed and supported an independent study of both the financial status and the general management competence of the entire executive committee. They expressed concern that the deficit financial position that had existed for the past year was only a symptom of a general lack of decisive action by the executive committee. They expressed a general consensus that the PC techniques proposed would lead to correction of the short term financial problems and managerial development of the present members of the executive committee would spark the growth and expansion that they had been unable to initiate from within the membership.

The second major activity became the preparation of a revised budget before the 4 September 1979, Executive



Committee meeting. The written proposal for a revised operating budget was drafted to emphasize the present financial position and presented four specific projections of status at the end of the year. Each alternative was based on a specific set of assumptions, which were explained before the numbers were shown.

This style was chosen to illustrate the point that budget alternatives depend on the basic policy decisions. The historic lack of clear policy statements had been a key factor leading to their present deficit operating position.

Appendix I contains the actual revised budget proposal as presented to the special meeting.

The specific presentation of the financial status and alternatives for a revised budget was made by the author to the Treasurer who then made the presentation to the Executive Committee. This practice was used to illustrate the mechanics of how to project the end of the year status from the present position and a cash flow analysis based on alternate sets of assumptions about policy decisions. It also illustrated the need for policy statements and monthly tracking of actual performance compared to original budget projections.

The practice of involving the Treasurer in the presentation raised the creditability of the report, as the group recognized and accepted the comments of one of their own members without being threatened by an outsider.

Once the magnitude and impact of the present deficit position was highlighted so that all members of the Executive





Committee acknowledged their present financial position, the meeting proceeded to an evaluation of the alternatives for future action.

The result of the special meeting was a commitment on the part of the treasurer and the others who attended that special meeting to make a specific proposal at the next Board of Directors meeting. The Treasurers presentation at the next board meeting led to actions to revise both the budget and the organizational structure of the PSO.

The active intervention in the financial activities was terminated but the OD efforts are being continued since the PSO has adopted a policy of assigning one of its own members on a rotating basis, to assume the role of the PC observer at each group meeting.



#### IV. PARALLELS AND CONTRASTS

##### A. PARALLELS BETWEEN THE TWO CASES

While the formal structure of the two organizations was quite different, the leadership style of the central figure in each case was quite similar.

The need for outside assistance and the top management commitment to support an outside change agent were both present before the author was allowed entry into either organization.

In both cases the original reason stated for allowing entry was later determined to be secondary to the individual goals of the person who requested the entry.

The practical realities of the present financial situation had more influence on capital budgeting decision than did the mathematical calculations of formal capital budgeting techniques.

The reaction of individual managers to ambiguity was the same in both cases. Invented decisions and actions were substituted for unclear policy statements by their seniors.

Both organizations had a striking resemblance to other organizations with which the author has served. Both organizations had a powerful informal organization that reacted to take action when the formal organization bogged down. In each case the internal communications procedures were restrictive and contributed to the delays in high level decision making. In case A the senior management personnel



were so awed by the position of their charismatic leader that while they were good and faithful followers, they were not participating in the management process since they never challenged his actions. In case B the available information was so tightly held to protect personal empires that few people knew what others were doing, even though there were only three levels of the formal organization and fewer than thirty people involved.

## B. CONTRAST OF PRACTICAL SITUATIONS WITH THEORIES

### 1. Overview

This section attempts to highlight the contrasts between observed situations and the predicted outcomes of applying the theories of chapter two. Each theory purports to explain relationships and provide a model for measuring and predicting future behavior or future events. In the realm of applied social science there are few single factor relationships.

### 2. Financial Analysis

The theories of the various financial analysis techniques imply that the results of the evaluation of financial analysis will form the basis for decisions regarding future actions. In the observed situations the results of the financial analysis were used to support favored positions or to justify past actions, rather than as a basis for original decisions. In case A the proposed capital projects were identified, and prioritized before the financial analysis was conducted. In case B programs



were approved based on social factors and then the financial impact of the actual scope of the program, as determined by the number of participants, was measured after the program was completed.

### 3. Capital Budgeting

The theories of capital budgeting attempt to rank the various alternatives to allow simple selection of the optimum choice from among the available alternatives. The observed application of capital budgeting practice in case A was so restrictive to a one year pay back period that the time value of money, the basic reason for capital budgeting controls, was ignored. Since the payback period was the sole decision criteria the other standard capital budgeting techniques were never applied to rank the alternatives.

### 4. Organizational Development

The theory of OD purports to provide a method of studying and interacting with the processes and structure of an organization to institute changes that lead to improvements. The basic theory recognizes interaction of forces, people, and environments. The author's research and experience have found closer support in the practical application of the more general OD theory than with either of the earlier more specific theories of financial analysis or capital budgeting. In both cases the technique of PC was accepted and approved by both the formal and the informal organizations. The open statement that PC was being used by the author and the visible results of changes in individual behavior and in organizational climate reinforced the individuals to move to





higher levels of participation in what had been initially viewed as a trial situation. The results were significant in opening channels to raise previously suppressed conflicts for reasonable discussion and positive resolution. Both organizations have adopted the techniques of PC as a standing internal review procedure and remain receptive for future OD efforts by outside consultants.



## V. CONCLUSIONS & RECOMMENDATIONS ✓

### A. CONCLUSIONS ✓

#### 1. Matrix Organizations Reduce a Manager's Formal Authority ✓

The changing environment is forcing more and more organizations into a matrix organizational structure to cope with the ambiguity and conflict caused by their interactions with the external environment. One impact of the matrix organization structure is that a manager is no longer part of a single chain of command. Since the manager has dual reporting responsibility he often lacks formal authority over all factors required to complete his assignments.

#### 2. Ambiguity Reduces Control ✓

The expectation that a manager can control events within his area of responsibility must be tempered with knowledge of the ambiguity he faces. ✓

#### 3. Ambivalence At The Top Causes Ambiguity Below ✓

One cause of ambiguity is top management's ambivalence about the organization's core mission. This ambiguity is exhibited by uneven distribution of responsibility to individuals for completing similar assignments, and bypassing the chain of command when requesting operational information.

#### 4. Managers Facing Ambiguity Invent Decisions ✓

Managers faced with ambiguity and lacking any source of reference often overinterpret signals from higher authority. Even a question or a request for a progress report from high



level management can be interpreted as proof that a long range corporate goal is directly supported by a research project. The periodic questions by the boss can be put together and viewed as the parts of a long range plan by his staff. In many ambiguous situations top management does not define specific objectives that support their long range planning goals. Without specific objectives the lower level managers are forced to invent decisions or to take action until a reaction occurs that defines the objective they are lacking. Thus acting is in fact a method of defining objectives. Once actions are complete, as was the case with events, decisions can be invented to clarify the perceived reality.✓

When multiple equal choices are presented, managers invent decisions backward in time in order to justify events. They invent forward in time in order to match invented decisions with long term goals. Regardless of whether these are real or invented decisions they are used to bring rational explanation to ambiguous situations.✓

##### 5. Each Level of Management Constructs Its Own Reality

Each level of management constructs a rational socially acceptable reality in the face of ambiguity. Without knowledge of simple cause and effect relationships a manager constructs a perceptual model of how the environment operates. This perception may take the form of invented decisions, myths or stories. One common myth is that all research or test projects or studies will develop into important products. This myth is spread by even minor



comments by high level managers during speeches, public tours and written reports.✓

#### 6. Delayed Decisions Have Hidden Costs

While delays in decision making by top management may forestall a confrontation that could result in budget changes, the true cost of the delay to other levels of the organization is seldom recognized. Such delays in decision making, or the delays in announcing decisions forces lower levels to invent decisions to match their model of reality with current events. These invented decisions or decisions by default interfere with long range planning and often lead to suboptimization.✓

#### 7. Formal Programming Is Applicable To Small Organizations

Formal programming techniques can be applied to even small organizations if basic goals are clearly stated and assumptions about the future are agreed upon.✓

#### 8. Reports Do Not Provide Control✓

Financial reports do not provide financial control. The review of financial reports by untrained laymen does not provide any meaningful level of control. Review of status reports without a measure of comparability, or a projection of future results, does not provide any control.✓

#### 9. Financial Management Differs From Program Management

Financial management should be separated from program management. Once social goals are clearly stated then financial controls can be provided for the various programs.✓





#### 10. Capital Budgeting Is Ambiguous✓

Decision making in capital budgeting situations is similar to decision making in other ambiguous situations. During the capital budgeting process, individuals invent decisions both forward and backward in time. Sometimes a decision is constructed in order to explain how events have evolved. At other times, a constructed decision represents a useful assertion about what the future will hold. In both situations the decision is an invention to fill the void caused by either lack of guidance from higher levels of management or a changing environment.✓

#### 11. Summary✓

The application of OD theory to a practical situation has provided additional insight into the interaction process that occurs between the OD catalysts and the individuals within an organization.✓

The original hypothesis that an OD intervention can be developed from a financial analysis has been supported. The recognition of the pervasive resistance by organizations to the entry of OD programs must be emphasized. Means must be developed to deal directly with the entry barriers on both the organizational and the individual level. Once the entry problem is resolved the full benefit of applied social science knowledge can be realized.✓

#### B. ADDITIONAL RESEARCH✓

Additional research is required to support and expand the hypothesis that financial analysis is a viable entry



point for an organizational development program. The majority of reports about OD programs are subjective rather than objective. (15, 5)✓

While these two cases in diverse situations were successful in making the conversion from a financial analysis to an OD program, they are not enough to uphold a universal theory. The insight into the common factors provided by this study do provide a foundation for future objective research. With this knowledge, milestones can be developed for future entry programs to record situations before the dynamics of the situations are distorted and influenced by the very process of the consultants entry and feedback. These same factors can be included in future managerial training programs to highlight the decision factors and provide a sense of weighting for those seeking to understand the dynamics of decision making in practical settings.✓

The next few steps in testing the original hypothesis in an expanded environment could be the field testing of the use of financial analysis to gain entry to a navy unit in order to start an OD program. This field test should be conducted in the real world without higher level requirements for the unit to participate. Provided the hypothesis is sustained the procedure could be field tested on other military units and then expanded to a service wide test of the entry process. Once a solid base of field experiences are documented a Navy Department level review should be conducted to consider a shift in the present formal organizational structure to tie the HRM program to the present



financial analysis organization. The approach of using financial analysis as the entry point for applying OD techniques within the Navy could separate the present HRM program from its image as a race relations program in disguise. (7, 14) An extension of this entry approach to the Navy's HRM program could lead to wider acceptance and fuller participation in the program for the development of our most valued human resources through the application of behavioral science knowledge.✓



## APPENDIX A

Financial Controls for individual program within the PSO.

Objectives: Determine -----

1. Cost analysis of present operations.
2. Financial controls for present operations.
3. Cost analysis of future programs.
4. Assist PSO personnel in establishing a method for determining costs of future programs.
5. Assist PSO personnel in setting up financial controls appropriate for future programs.
6. Provide practical experience with an operating organization for the author.

GEORGE E. PLANK

Approved: \_\_\_\_\_





## APPENDIX B

### OD ENTRY PROJECT

Organization: PSO  
Contact Person: Requesting member of Board of Directors  
Initial request: Cost analysis of individual program costs; method of projecting costs of future programs.  
First Contact: Interview with a Director of the PSO.  
Second Contact: Board of Directors meeting.  
Entry Method: Observe Board of Directors meeting, have a short introduction, then present outline of entry and intervention feasibility study.  
Entry: Request approval of Board of Directors, and key personnel for a feasibility study for an Organizational Development intervention.

#### OBJECTIVES:

1. Determine suitability for future intervention.
2. Provide practical experience for author.
3. Identify objectives of possible interventions.

#### STEPS:

- a. Observe Board of Directors Meeting
- b. Interview senior PSO personnel (estimate two hours each)
- c. Review financial records
- d. Interview several individual Directors (estimate two hours each)
- e. Review Feasibility study results with the Board of Directors, and senior PSO personnel at the next monthly meeting.
- f. Approval by the Board of Directors for intervention or termination of the study.
- g. No \$ cost to the PSO, personnel time required.

#### Intervention:

Objectives confirmed by the feasibility study.

1. Assist PSO personnel in conducting cost analysis of present programs.
2. Assist PSO Directors in developing financial controls for present programs.
3. Assist PSO Directors and senior personnel in projecting costs of future programs.



## APPENDIX C

### FEASIBILITY STUDY REPORT

#### FOR AN ORGANIZATIONAL DEVELOPMENT STUDY OF THE PSO

A feasibility study was conducted from 15 July to 1 August, 1979 by George E. Plank, to determine if an Organizational Development study could be conducted with the PSO.

#### FINDINGS:

The PSO meets the requirements for an Organizational Development study. The PSO is a dynamic, changing organization that is actively seeking to monitor and improve its effectiveness.

All personnel contacted were cooperative and expressed a willingness to participate in a full scale study and improvement program.

Questions raised when the original feasibility study was proposed have been answered and requirements and limitations have been agreed on to form a framework for future research.

A proposal for a full scale Organizational Development study and Intervention is attached for the review of the Board of Directors.

#### Initial Observations:

Perceptions of organizational goals are significantly different at various levels within the organization. Available information is not distributed to everyone. Financial reports are not understood by the Board Members. There is no single file of information available on current and proposed program costs.



The organization is actively moving to define committee and program goals.

Organizational and individual effectiveness can be improved with only minor coordinated efforts.

Submitted: George E. Plank

Reviewed: \_\_\_\_\_



## APPENDIX D

### PROPOSAL FOR AN ORGANIZATIONAL DEVELOPMENT STUDY OF THE PSO JULY-DEC 1979

<u>OBJECTIVES:</u> (for both the PSO and the author)	<u>Target Date</u>
1. Conduct a feasibility study for an Organizational Development study of the PSO Feasibility study approved: 11 July, 1979 Favorable report submitted: 15 August, 1979	
2. Conduct a cost analysis study of the individual PSO programs	1 Sept. 1979
3. Assist the Program Committee in developing procedures for estimating costs of future programs. Draft copy of Program Evaluation Sheet Smooth copy of Worksheets	1 Aug, 1979 1 Oct., 1979
4. Assist the PSO Staff and Board of Directors in establishing appropriate financial control systems for the present programs	1 Oct., 1979
5. Report the results of the study to the Board of Directors	1 Oct., 1979

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<u>OBJECTIVES:</u> (primarily for the researcher)	
6. Provide an opportunity to study Organizational Development and Financial Control Systems in a current operating situation.	
7. Determine the type of Organizational Development Intervention that is appropriate for a non-profit organization	





8. With the approval of the Board of Directors  
conduct an Organizational Development  
Intervention to introduce changes recommended  
by the study. 10 Oct., 1979
9. Measure the results of the changes  
introduced 10 Nov., 1979
10. Present the final results of the study,  
and any changes introduced to the Board  
of Directors 10 Dec., 1979

#### REQUIREMENTS

1. Dedicated time for interviews, surveys, and feedback  
reports.

PSO Officers	4 hours/month
Other Board Members	2 hours/month
Director	3 hours/week
Staff Members	2 hours/week
Program committee members	2 hours/week
Accountant	2 hours/week
2. Access to PSO records.
3. Twenty minutes at the end of each Board of Directors  
meeting for a progress report and feedback session.
4. A special meeting of selected Board of Directors members  
and PSO staff to introduce changes approved by the Board  
of Directors.
5. Two short survey forms for all Board of Directors and  
staff.
6. Agreement to meet for one hour review session if the  
study is terminated early by either party.
7. PSO review of all written reports before release for  
author's use in course work. Review to be conducted by  
a member of the Board of Directors.



Costs to the PSO:

Only the time of the people involved, scheduled on a not to interfere basis as much as possible.

Benefits:

Objective study of the present PSO operations, and OD management assistance for improvement.

Requested by: George E. Plank

Recommended by:

APPROVED: \_\_\_\_\_ DATE \_\_\_\_\_



APPENDIX E

PSO PROGRAM WORKSHEET

New Proposal \_\_\_\_\_

Review \_\_\_\_\_

PROGRAM TITLE:

Purpose:

Participants: \_\_\_\_\_  
(age group) (#Available) (# Program designed for) (#confirmed/reserved)

Program requested by:

Board of Directors    PSO Staff    Community members

Names:    1.  
            2.  
            3.

SPECIFIC OBJECTIVES:

PSO GOALS SUPPORTED BY THE ABOVE OBJECTIVES:

COMMUNITY NEEDS SERVED BY THIS PROGRAM:

TIME REQUIREMENTS:        # hours/week        AVAILABLE        RESERVED

Program Coordinator:

PSO Director:

PSO Staff:

Participants:

Sponsor:

Facilities:

EQUIPMENT                                YES                                NO

Available from PSO:

To be retained for future programs:

To be given away:

To be used up during the program:



PSO PROGRAM WORKSHEET

TRANSPORTATION:

By parents:

By PSO staff:

Cost to PSO:

Service contracts required:

Additional Insurance required:

Public relations program:

First announcement by:

Mailing list available:

Newspaper advertisements:

Handout Flyers:

Special work required to prepare facilities:

BUDGET:

EXPENSES

Facilities

Equipment

Uniforms

Advertising

Handout materials

Consumable materials

Transportation

Hired staff

PSO overhead

INCOME

User Fees

Sponsors

PSO general fund

PSO other funds

Other organizations

Net Income \_\_\_\_\_

Net Loss \_\_\_\_\_

PROGRAM RECOMMENDED BY: Director \_\_\_\_\_ Date \_\_\_\_\_

PROGRAM APPROVED BY: Board of Directors \_\_\_\_\_

Date \_\_\_\_\_





PSO PROGRAM MILESTONE CHART

PROGRAM TITLE:

Proposed start date \_\_\_\_\_ Proposed finish date \_\_\_\_\_

Board approval required by: \_\_\_\_\_

Time requirements for: (number of hours/week or % of time)

Board of Directors: \_\_\_\_\_ Committee: \_\_\_\_\_

Director:

Staff:

Secretary:

PR Worker:

Volunteers:

Coordinator:

Coaches:

Referees:

Participants:

Mothers:

Dads:

Extra drivers:

Special work to get ready:

Facilities required by: \_\_\_\_\_

Confirmed available: \_\_\_\_\_  
name date

Examined as suitable \_\_\_\_\_  
Special work required to get ready:

Equipment/uniforms required by:

Ordered on: \_\_\_\_\_ by \_\_\_\_\_  
date name

Estimated delivery date \_\_\_\_\_

Received on \_\_\_\_\_ by \_\_\_\_\_  
date name

Milestone chart approved by: \_\_\_\_\_ on \_\_\_\_\_  
name date



## APPENDIX F

### PSO PROGRAM WORKSHEET INSTRUCTIONS

#### Purpose:

The Program Worksheet is designed to collect all information necessary for considering a new program. The Worksheet is to be filled out by the person proposing any new program, and shall be submitted to the program committee for review and evaluation prior to being presented to the Board of Directors for final approval.

The same worksheet shall be used to provide periodic status reports on ongoing programs to the program committee and to the Board of Directors.

#### Use:

A separate worksheet shall be prepared for each new proposal. The person proposing a program or any major modification shall start the worksheet. The program committee chairman shall assign a committee member to oversee the initial collection of data, and coordination of staff work to determine and collect all necessary information.

A current copy of the approved worksheet shall be maintained in the PSO office, where it will be available to all staff members and the Board of Directors for review of current status. Each program coordinator shall provide the program committee chairman with a monthly status report of his current active programs. These reports will be used by the program committee chairman to provide monthly status reports to the Board of Directors.

Since the Program Worksheet is intended as a guide for presenting any new program, the standard headings will be used where possible. Additional pages will be attached to explain details of the specific program.



APPENDIX G

PSO PROGRAM SUMMARY

\_\_\_\_\_ date

TITLE:

Purpose:

Participants: \_\_\_\_\_  
Age group      # planned      # actual to date

Program Worksheet completed: \_\_\_\_\_ Start date \_\_\_\_\_  
date

SPECIFIC OBJECTIVES:

PSO Goals supported by this program:

Description      Available      Reserved

Facilities

Equipment

Personnel  
Staff  
Volunteer

Funds

BUDGET

Total Expenses

Total Income

Planned      Actual

Planned      Actual

Net

Program Coordinator \_\_\_\_\_ Date \_\_\_\_\_

Administrative Director \_\_\_\_\_ Date \_\_\_\_\_



## APPENDIX H

### FEEDBACK

Feedback in an operating physical system serves as a control mechanism. Feedback in a social system such as your organization can serve the same purpose.

In a physical system some portion or effect of the output is measured and used to control or feedback to the inputs and thereby adjust the output. Usually a small portion is used as the feedback and then amplified or enlarged to get the desired effect.

The feedback may be either positive or negative according to the reference point chosen, and not good or bad as a value judgment. Positive feedback acts in the same direction as the effect measured, while negative feedback acts in the opposite direction as the effect measured.

A simple example is the thermostat that controls your hot water heater. When the water is cold, the thermostat turns up the flame, and when the water temperature gets above the desired setting, the thermostat turns down the flame. This is negative feedback since it acts in the opposite direction as the temperature change.

In a similar manner an Organizational Development consultant can act as a measuring device of the processes going on within your organization and act as a mirror to show you the effects of actions. With this information you can provide your own control actions to support





effective actions and to remove or reduce actions that detract from your group effectiveness in reaching your organization's goals.

Critiquing is a skill that can be developed with practice. Once the technique is demonstrated and you can see the benefits of looking at your own actions, future critiques will be conducted by members of your own group with only assistance provided by the author. Keep in mind that the author wants to develop these skills within your own membership and then work himself out of a job.



## APPENDIX I

### PROPOSAL FOR REVISED OPERATING BUDGET FOR PSO

#### Situation:

The flow of incomes and expenses have not occurred in the manner predicted in the 1979 operating budget adopted at the March, 1979 Board of Directors meeting.

Projections of the present budget spread for the remainder of 1979, (August through December, 1979) indicates the PSO will end the year with a deficit of [\$9465.00].

Several conditions have changed that affect the assumptions used in the original budget.

A revised budget is required to meet the following goals:

1. To illustrate to all members of the Board of Directors the true present financial situation.
  - A. Deficit at 30 July, 1979 is [\$6839.00].
  - B. Projected Deficit for 1 January, 1980 is [\$9465.00]. (If no action is taken)

#### ALTERNATIVES:

Four specific alternatives for a revised budget are presented in the following pages. Each alternative is based on specific assumptions that are explained, and then the results of these assumptions are shown with numerical results projected to the end of the calendar year, 1979.

- A. Recognize known changes and project a deficit of [\$10,099.00] - if no action is taken.



- B. Recognize known changes and predict minor changes in expenses. This results in a projected deficit of [\$8099.00].
- C. Recognize known changes, allow for new soccer program as break-even operation, and assume \$11,200.00 additional income. This will end the year with no deficit meeting the original break-even goal for the total yearly budget.
- D. This is a projection of year end status using the present budget spread for each month, and ending the year with a deficit of (\$9,465.00).

Discussion:

Once the need to revise the budget is confirmed, the assumptions to be used must be defined by the Board of Directors or the Treasurer. Once the assumptions are clearly stated, the analyst can project the results to the year end situation and identify to the Board of Directors areas that require future adjustment.



## REVISED BUDGET PROPOSAL

### ALTERNATIVE (A)

#### ASSUMPTIONS:

1. Sustaining membership contributions will not reach the old budget level of \$25,000.00 for 1979.
2. The new Soccer program will break even \$4000.00 budget.
3. CETA overhead will continue to provide income of \$350/month.
4. Only \$520.00 additional camping expense is projected for 1979.
5. Miscellaneous income will collect \$100.00 more this year.
6. Total employee expenses will remain the same as budgeted. (This allows for recent secretary's raise.)
7. Actual year to date figures are used for camping, special projects, and sustaining membership projections.
8. Total Insurance expense will reach the \$4000.00 budgeted.
9. Total Insurance expense will reach the \$4000.00 budgeted.

### ALTERNATIVE (B)

1. Assumptions 1 through 7 are the same as for Alternative (A).
2. Insurance total will be \$2000.00 vice the original \$4000.00.
3. Other items will continue at the same rate as in the old budget.

### ALTERNATIVE (C)

1. Assumptions are the same as in Alternative (B).
2. \$11,200.00 additional income will be received from:
  - a. Revenue sharing requests already submitted
  - b. New fund raising actions.





## ALTERNATIVE (D)

### ASSUMPTIONS:

1. The original budget spread projections by the accountant are good for the remaining five months of 1979.
2. A large deficit at the end of the year is acceptable.
3. The Soccer program is not included since it is scheduled to break even.
4. The late payment of bills does not hurt the reputation of the PSO in the community.

### RESULTS:

Net loss for operations August through December, 1979	(\$2636.00)
Deficit as of 30 July, 1979	(\$6839.00)
Projected deficit at 31 December, 1979	[\$9465.00]



## FINANCIAL STATUS

PRESENT DEFICIT

July 31, 1979

(\$6839.00)

PROJECTED YEAR END DEFICIT

(\$8000.00 - \$10,000.00  
based on assumptions)

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### Results of Revised Budget

ALTERNATIVE

PROJECTED YEAR END STATUS

A

(\$10,099.00)

B

(\$ 8,099.00)

C

BALANCED

D

(\$ 9,400.00)

---

ACTION ALTERNATIVES

RESULTS

CUT EXPENSES

SAVE \$2,000.00

RAISE INCOME

BALANCE BUDGET

\$11,200.00

(Note: Presented as large colored flipchart)



IMPACT OF DEFICIT OPERATIONS

LIMITED PROGRAMS  
EXTRA INTEREST EXPENSE  
POOR CREDIT  
LOST DISCOUNTS  
LOW IMAGE IN COMMUNITY  
EMPLOYEE FACTORS  
ATTITUDE  
STABILITY

---

ALTERNATIVES TO RAISE INCOME

PSO's MENS' CLUB  
CHRISTMAS TREE SALES  
UNITED WAY  
FOLLOW UP ON SUSTAINING MEMBERSHIP DRIVE  
PROGRAM FEES  
SPECIAL PROJECTS  
REVENUE SHARING REQUESTS  
CITY  
COUNTY  
OTHERS ??????



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